

Single Audit Report

**MARION T. ACADEMY CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)  
Wilmington, Delaware

Year Ended June 30, 2005

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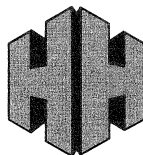
**MARION T. ACADEMY CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)

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**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

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### **Report of Independent Auditor**

To the School Board Members and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School (a component unit of the State of Delaware) as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of June 30, 2005 and 2004, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2005 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 7 and page 30, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion T. Academy Charter School's basic financial statements. The additional information on pages 31 and 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information on pages 31 and 32 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

September 6, 2005  
Wilmington, Delaware

**Management's Discussion  
and Analysis Section**

**MARION T. ACADEMY CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

Our discussion and analysis of the School's financial performance provides an overview of its financial activities for the year ended June 30, 2005. Please read it in conjunction with the Report of Independent Auditor located on pages 1 and 2, and the School's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

The net assets of the School increased by \$16,371 or 1.1%. Program revenues which include federal aid, charges for services, and contributions accounted for \$615,083 or 12.0% of total revenue, and general revenues accounted for \$4.5 million or 88.0% of total revenue.

**USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

**REPORTING THE SCHOOL AS A WHOLE**

***The Statement of Net Assets and Statement of Activities***

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the School.

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS**

***Fund Financial Statements***

Our analysis of the School's major funds and fund financial statements begins on page 11 and provides detailed information about the most significant funds-not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

***Governmental Funds***

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**MARION T. ACADEMY CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS** (continued)

***Fiduciary Funds***

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can only be used for the student activities. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 15. These activities are excluded from the School's other financial statements because the assets cannot be utilized by the School to finance its operations. The student activity fund was closed during the current fiscal year due to inactivity.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$1.6 million at the close of the fiscal year. The largest portion of the School's assets is cash and equivalents (25.6%) and capital assets net of depreciation (74.2%). The School uses capital assets to provide services; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2005, the School has a cumulative debt obligation of \$2.75 million related to the acquisition of capital assets.

A comparative summary analysis of fiscal year 2005 to 2004 follows:

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Current and other assets</b>		
Current and other assets	\$1,361,970	\$ 446,682
Capital assets, net of depreciation	3,957,554	4,064,215
Other assets	13,650	41,060
<b>Total assets</b>	<u>5,333,174</u>	<u>4,551,957</u>
<b>Liabilities</b>		
Current liabilities	1,073,401	739,393
Long-term liabilities	2,692,024	2,261,186
<b>Total liabilities</b>	<u>3,765,425</u>	<u>3,000,579</u>
<b>Net assets</b>		
Invested in capital assets, net of debt	1,219,244	2,424,390
Restricted for mortgage escrow	694,919	...
Restricted for plaque	4,000	4,000
Unrestricted	<u>(350,414)</u>	<u>(877,012)</u>
<b>Total net assets</b>	<u>\$1,567,749</u>	<u>\$1,551,378</u>

The School is able to report positive balances in total net assets, both for the government as a whole, and as well as its separate governmental type activities.

The following (Table 2) reflects the School's revenues by funding sources and the expenses by functions which indicate how the funding received was used.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

**Table 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Charges to school districts	\$1,630,250	\$1,231,431
State aid not restricted to specific purpose	2,855,268	2,554,218
Earnings on cash and equivalents	19,208	4,089
Miscellaneous revenues	8,920	11,727
Total general revenue	4,513,646	3,801,465
Program revenues:		
Federal aid	447,161	306,248
Other local revenues	167,922	147,201
<b>Total revenues</b>	<b>5,128,729</b>	<b>4,254,914</b>
<b>Expenses</b>		
Instructional services	3,770,276	3,174,115
Supporting services:		
Operation and maintenance of facilities	467,318	397,112
Transportation	363,630	388,751
School food service	200,186	172,628
Interest on long-term debt	187,877	188,943
Depreciation-unallocated	123,071	111,869
<b>Total expenses</b>	<b>5,112,358</b>	<b>4,433,418</b>
<b>Change in net assets (liabilities)</b>	<b>\$ 16,371</b>	<b>\$ (178,504)</b>

**Governmental Activities**

The net assets of the School's governmental activities increased by \$16,371 and unrestricted net assets reflect a negative balance of \$350,414. The increase in net assets is primarily the result of increased revenue levels associated with increased enrollment. Most notably, the School's total enrollment increased by 31 students (632 students in 2005 versus 601 students in 2004).

The Statement of Activities shows the cost of program services and contributions from the private sector, charges for services, and federal grants offsetting those services. The table below reflects the cost of program services and their net cost after taking into account the program revenues for governmental activities. General revenues which include primarily charges to School Districts and State entitlements must support the net cost of the School's programs.

	<u>Services</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
<b>Governmental activities</b>				
Instructional services	\$3,770,276	\$3,244,636	\$3,174,115	\$2,848,882
Supporting services:				
Operation and maintenance of facilities	467,318	467,318	397,112	397,112
Transportation	363,630	363,630	388,751	388,751
School food service	200,186	110,743	172,628	44,412
Interest on long-term debt	187,877	187,877	188,943	188,943
Depreciation-unallocated	123,071	123,071	111,869	111,869
<b>Total expenses</b>	<b>\$5,112,358</b>	<b>\$4,497,275</b>	<b>\$4,433,418</b>	<b>\$3,979,969</b>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$4.5 million of support as well as general revenues comprising \$4.5 million of total revenues.



**MARION T. ACADEMY CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

**THE SCHOOL'S FUNDS**

The School's governmental funds (as presented on the balance sheet on page 11) reported a combined fund balance of \$966,302, which is significantly more than last year's deficit fund balance of \$202,216. The year-to-year increase in fund balance was \$1,198,518. The primary reason for this combined fund balance increase is that the School's capital projects fund generated \$1.1 million in net proceeds from long-term financing, of which approximately \$1.0 million is included in cash and equivalents at June 30, 2005.

**General Fund**

The School's general fund balance increase is due to a variety of factors, of which the key factor is stated above. The tables that follow illustrate the financial activities of the general fund. The following highlights the changes in the School's revenues:

- With the increase in the School's student enrollment the School was able to increase its revenue stream from school districts, the State of Delaware, and the federal government.
- Earnings on cash and equivalents increased due to the availability of cash resulting primarily from the School's refinancing of its debt obligations.
- School food service revenue decrease was due to the decreased food service costs resulting from a change in the food service management contractor.
- The School increased its efforts to attract public awareness to the School which caused an increase in contribution revenue.

	Amounts		Percentage
	2005	2004	(%) Change
Revenues			
Charges to school districts	\$1,630,250	\$1,231,431	32.4
State aid	2,855,268	2,554,218	11.8
Federal aid	447,161	306,248	46.0
Earnings on cash and equivalents	13,451	3,241	315.0
School food service	89,443	128,216	(30.2)
Contributions	78,479	18,985	313.4
Miscellaneous	8,795	11,727	(25.0)
Total revenues	\$5,122,847	\$4,254,066	20.4

The largest portion of general fund expenditures is for salaries and related employment costs, since the School is a service-oriented organization and as such labor intensive. The largest percentage increase in expenditures is employment costs which is due to state-mandated benefits. Increases or decreases in other current costs are subject to the effects of personnel changes and changes in the student population. The decrease in debt service costs is a result of the School's refinancing of its debt obligations.

	Amounts		Percentage (%) Change
	2005	2004	
<b>Expenditures by object</b>			
Salaries	\$2,153,959	\$1,973,298	9.2
Employment costs	774,742	595,882	30.0
Other current costs	1,787,685	1,581,432	13.0
Debt service costs	247,633	393,123	(37.0)
<b>Total expenditures</b>	<b>\$4,964,019</b>	<b>\$4,543,735</b>	<b>9.3</b>

The School's revenues exceeded expenditures during the fiscal year resulting in an increase in fund balance.

**MARION T. ACADEMY CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

**GENERAL FUND BUDGET INFORMATION**

The School prepares only a general fund budget and it is prepared on the modified accrual basis of accounting. The School may periodically amend its revenue and expenditure estimates to reflect changing conditions. The September 30 unit count is a pivotal event in shaping the ultimate revenue estimates. The number of students enrolled and their district of origin largely determine the State and Local revenues. As a result of the final September 30, 2004 enrollment results and various other factors, such as the refinancing, the School amended the original fiscal 2005 budget estimates to reflect a \$261,827 increase in planned revenue levels as well as a \$463,801 increase in planned expenditures, such as salaries and related employment costs, contracted services, transportation, land/building/facilities, and repairs and maintenance.

**CAPITAL ASSETS**

The School has \$3.96 million invested in capital assets, net of depreciation, all of which is attributed to its governmental activities. The School acquired no capital assets meeting its capitalization policy and depreciation expense was \$106,661 for fiscal year 2005. Detailed information regarding capital assets activity is included in Note 4 to the financial statements.

**DEBT OBLIGATIONS**

At June 30, 2005, the School has \$3.4 million in debt obligations. On September 29, 2004, the School refinanced its existing debt for more favorable terms. The refinancing of \$2.8 million is more fully described in Note 5 to the financial statements. The newly obtained financing will have future positive impact on the School's annual debt service requirements and operating budgets.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

For the fiscal year 2006, the School anticipates certain reductions in its total enrollment. The School's management believes that these reductions will better allow the school to focus on its core competencies and ultimately improve its academic environment and performance.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact us at (302)575-1190.

## **Basic Financial Statements Section**

**MARION T. ACADEMY CHARTER SCHOOL**  
**STATEMENTS OF NET ASSETS**  
June 30, 2005 and 2004

<b>ASSETS</b>	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 625,649	\$ 403,850
Cash held by escrow agent	694,919	...
Accounts receivable, net	21,597	22,476
Due from other governments	19,805	20,356
<b>Total current assets</b>	<u>1,361,970</u>	<u>446,682</u>
<b>NONCURRENT ASSETS</b>		
Capital assets:		
Land	100,000	100,000
Deposit on land	...	25,000
Other capital assets, net of depreciation	3,857,554	3,964,215
Loan origination fees, net of amortization	13,650	16,060
<b>Total noncurrent assets</b>	<u>3,971,204</u>	<u>4,105,275</u>
<b>TOTAL ASSETS</b>	<u>5,333,174</u>	<u>4,551,957</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	46,006	350,504
Accrued salaries and related costs	319,662	323,394
Capital lease obligation	...	5,131
Long-term liabilities due within one year	707,733	60,364
<b>Total current liabilities</b>	<u>1,073,401</u>	<u>739,393</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term liabilities due after one year	2,676,064	2,247,227
Compensated absences liability	15,960	13,959
<b>Total noncurrent liabilities</b>	<u>2,692,024</u>	<u>2,261,186</u>
<b>TOTAL LIABILITIES</b>	<u>3,765,425</u>	<u>3,000,579</u>
<b>NET ASSETS (LIABILITIES)</b>		
Invested in capital assets, net of related debt	1,219,244	2,424,390
Restricted per mortgage agreement	694,919	...
Restricted contributions for plaque	4,000	4,000
Unrestricted	<u>(350,414)</u>	<u>(877,012)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,567,749</u>	<u>\$ 1,551,378</u>

The accompanying notes are an integral  
part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 3,770,276	\$ ...	\$ 525,640	\$ ...	\$ (3,244,636)
Supporting services:					
Operation and maintenance of facilities	467,318	...	...	...	(467,318)
Transportation	363,630	...	...	...	(363,630)
School Food services	200,186	14,168	75,275	...	(110,743)
Interest on long-term debt	187,877	...	...	...	(187,877)
Depreciation and amortization-unallocated	<u>123,071</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(123,071)</u>
<b>Total Charter School</b>	<b>\$ 5,112,358</b>	<b>\$ 14,168</b>	<b>\$ 600,915</b>	<b>\$ ...</b>	<b><u>(4,497,275)</u></b>
<b>GENERAL REVENUES</b>					
Charges to school districts					1,630,250
State aid not restricted to specific purpose					2,855,268
Earnings on cash and equivalents					19,208
Miscellaneous					<u>8,920</u>
<b>Total general revenues</b>					<b><u>4,513,646</u></b>
<b>CHANGE IN NET ASSETS</b>					<b>16,371</b>
<b>NET ASSETS</b>					
Beginning of year					<u>1,551,378</u>
End of year					<b><u>\$ 1,567,749</u></b>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2004

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 3,174,115	\$ ...	\$ 325,233	\$ ...	\$ (2,848,882)
Supporting services:					
Operation and maintenance of facilities	397,112	...	...	...	(397,112)
Transportation	388,751	...	...	...	(388,751)
School Food services	172,628	36,844	91,372	...	(44,412)
Interest on long-term debt	188,943	...	...	...	(188,943)
Depreciation and amortization-unallocated	<u>111,869</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(111,869)</u>
<b>Total Charter School</b>	<b>\$ 4,433,418</b>	<b>\$ 36,844</b>	<b>\$ 416,605</b>	<b>\$ ...</b>	<b>(3,979,969)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					1,231,431
State aid not restricted to specific purpose					2,554,218
Earnings on cash and equivalents					4,089
Miscellaneous					<u>11,727</u>
<b>Total general revenues</b>					<u>3,801,465</u>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>					(178,504)
<b>NET ASSETS</b>					
Beginning of year					<u>1,729,882</u>
End of year					<u>\$ 1,551,378</u>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
BALANCE SHEETS-GOVERNMENTAL FUNDS  
June 30, 2005 and 2004

	2005			2004		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash and equivalents	\$ 494,929	\$ 130,720	\$ 625,649	\$ 248,174	\$ 155,676	\$ 403,850
Cash held by escrow agent	...	694,919	694,919	...	...	...
Accounts receivable, net	5,972	15,625	21,597	6,851	15,625	22,476
Due from other governments	19,805	...	19,805	20,356	...	20,356
Deposit on land	...	...	...	...	25,000	25,000
Interfund receivable (payable)	...	...	...	2,700	(2,700)	...
<b>TOTAL ASSETS</b>	<u>\$ 520,706</u>	<u>\$ 841,264</u>	<u>\$ 1,361,970</u>	<u>\$ 278,081</u>	<u>\$ 193,601</u>	<u>\$ 471,682</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 46,006	\$ ...	\$ 46,006	\$ 350,504	\$ ...	\$ 350,504
Accrued salaries and related costs	319,662	...	319,662	323,394	...	323,394
<b>Total liabilities</b>	<u>365,668</u>	<u>...</u>	<u>365,668</u>	<u>673,898</u>	<u>...</u>	<u>673,898</u>
<b>FUND BALANCES (DEFICIT)</b>						
Reserved per mortgage agreement	...	694,919	694,919	...	...	...
Reserved contributions for plaque	...	4,000	4,000	...	4,000	4,000
Unreserved	155,038	142,345	297,383	(395,817)	189,601	(206,216)
<b>Total fund balances (deficit)</b>	<u>155,038</u>	<u>841,264</u>	<u>996,302</u>	<u>(395,817)</u>	<u>193,601</u>	<u>(202,216)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 520,706</u>	<u>\$ 841,264</u>	<u>\$ 1,361,970</u>	<u>\$ 278,081</u>	<u>\$ 193,601</u>	<u>\$ 471,682</u>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF NET ASSETS  
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	\$ 996,302	\$ (202,216)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$4,366,421 for 2005 and \$4,366,421 for 2004. The related accumulated depreciation is \$408,867 for 2005 and \$302,206 for 2004.	3,957,554	4,064,215
Loan origination fees are reported as expenditures in the governmental funds. The total cost is \$14,000 for 2005 and \$31,250 for 2004 and the related accumulated amortization is \$350 for 2005 and \$15,190 for 2004.	13,650	16,060
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(3,383,797)	(2,307,591)
Capital lease obligations are not due and payable in the current period and therefore are not reported in the governmental funds.	...	(5,131)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(15,960)</u>	<u>(13,959)</u>
<b>Total net assets-governmental activities</b>	<u>\$ 1,567,749</u>	<u>\$ 1,551,378</u>

The accompanying notes are an integral part of the basic financial statements



**MARION T. ACADEMY CHARTER SCHOOL****STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**

Years Ended June 30, 2005 and 2004

	2005			2004		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Charges to school districts	\$ 1,630,250	\$ ...	\$ 1,630,250	\$ 1,231,431	\$ ...	\$ 1,231,431
State aid	2,855,268	...	2,855,268	2,554,218	...	2,554,218
Federal aid	447,161	...	447,161	306,248	...	306,248
Earnings on cash and equivalents	13,451	5,757	19,208	3,241	848	4,089
School Food services	89,443	...	89,443	128,216	...	128,216
Contributions	78,479	...	78,479	18,985	...	18,985
Miscellaneous	8,795	125	8,920	11,727	...	11,727
<b>Total revenues</b>	<u>5,122,847</u>	<u>5,882</u>	<u>5,128,729</u>	<u>4,254,066</u>	<u>848</u>	<u>4,254,914</u>
<b>EXPENDITURES</b>						
Current:						
Instructional services	3,653,459	12,611	3,666,070	3,191,846	150	3,191,996
Supporting services:						
Operating & maintenance of facilities	467,318	...	467,318	397,112	...	397,112
Transportation	363,630	...	363,630	388,751	...	388,751
School Food services	200,186	...	200,186	172,628	...	172,628
Capital outlay	31,793	39,557	71,350	275	3,173	3,448
Debt service:						
Principal	93,659	1,635,266	1,728,925	226,612	13,496	240,108
Interest and other charges	153,974	33,903	187,877	166,511	22,432	188,943
<b>Total expenditures</b>	<u>4,964,019</u>	<u>1,721,337</u>	<u>6,685,356</u>	<u>4,543,735</u>	<u>39,251</u>	<u>4,582,986</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<u>158,828</u>	<u>(1,715,455)</u>	<u>(1,556,627)</u>	<u>(289,669)</u>	<u>(38,403)</u>	<u>(328,072)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Interfund transfers in (out)	392,027	(392,027)	...	...	...	...
Proceeds from long-term financing	...	2,755,145	2,755,145	206,483	...	206,483
<b>Total other financing sources (uses)</b>	<u>392,027</u>	<u>2,363,118</u>	<u>2,755,145</u>	<u>206,483</u>	<u>...</u>	<u>206,483</u>
<b>NET CHANGE IN FUND BALANCES</b>	550,855	647,663	1,198,518	(83,186)	(38,403)	(121,589)
<b>FUND BALANCES (DEFICIT)</b>						
Beginning of year	<u>(395,817)</u>	<u>193,601</u>	<u>(202,216)</u>	<u>(312,631)</u>	<u>232,004</u>	<u>(80,627)</u>
End of year	<u>\$ 155,038</u>	<u>\$ 841,264</u>	<u>\$ 996,302</u>	<u>\$ (395,817)</u>	<u>\$ 193,601</u>	<u>\$ (202,216)</u>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**

## RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of activities are different because:		
<b>Net change in fund balances-total governmental funds</b>	<b>\$ 1,198,518</b>	<b>\$ (121,589)</b>
<p>Government funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$15,000 are capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay.</p>		
	<u>2005</u>	<u>2004</u>
Capital Outlay	\$ ...	\$ ...
Depreciation Expense	<u>(106,661)</u>	<u>(106,661)</u>
	(106,661)	(106,661)
<p>The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term liabilities and related items is as follows:</p>		
	<u>2005</u>	<u>2004</u>
Long-term financing:		
Proceeds	\$(2,800,000)	\$ (206,483)
Principal payments	1,723,794	240,108
Loan origination fees:		
Amortization	(16,410)	(5,208)
Refinancing fees paid	<u>14,000</u>	<u>...</u>
	(1,078,616)	28,417
<p>Capital assets acquired by capital lease are shown as expenditures and other financing sources in the governmental funds. The principal payments must be removed from the statement of activities and applied to the lease liability.</p>		
	5,131	26,563
<p>In the statement of activities, certain operating expenses such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation payable increased by \$2,001 for 2005 and increased by \$5,234 for 2004.</p>		
	<u>(2,001)</u>	<u>(5,234)</u>
<b>Change in net assets (liabilities)-gov'tal activities</b>	<b>\$ <u>16,371</u></b>	<b>\$ <u>(178,504)</u></b>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
STATEMENTS OF FIDUCIARY NET ASSETS-AGENCY FUND  
June 30, 2005 and 2004

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	<u>Student Activities Fund</u>	
	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash and equivalents	\$ <u>          ...</u>	\$ <u>      4,211</u>
<b>LIABILITIES</b>		
Other current liabilities	\$ <u>          ...</u>	\$ <u>      4,211</u>

The accompanying notes are an integral  
part of the basic financial statements

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**MARION T. ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Marion T. Academy Charter School (the "School") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the School are described below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The basic financial statements include:

Management's Discussion and Analysis (MD&A) providing an analysis of the School's overall financial position and results of operations.

Financial statements prepared using full-accrual accounting for all of the School's activities.

- Change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements, including notes to the financial statements.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include charges to students or other third parties who purchase, or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Government-Wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, and postemployment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The **capital projects fund** accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Additionally, the School reports the following fund type:

- The **student activities agency fund** (a fiduciary fund) accounted for assets held on behalf of student groups. The fund was closed during the current fiscal year due to inactivity.

Amounts reported as program revenues include 1) charges to students for special fees, material, supplies, or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

General fund budgets are adopted on the modified accrual basis of accounting; however, budgets are not adopted for the other funds.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. At June 30, 2005 and 2004, the School had no outstanding encumbrances.

Use of Estimates

The preparation of basic financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. At June 30, 2005 and 2004, the allowance for doubtful accounts is \$112,917 and \$112,917, respectively.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion).

Advances between funds, when present in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets and Depreciation

Capital assets, which include building and improvements, are reported in the government-wide financial statements. The School defines capital assets as stated in the State of Delaware, Department of Finance, Division of Accounting, (III-A) *Fixed Asset Capitalization Policy*. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extends the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest cost incurred during construction is not capitalized.

Building and improvements are depreciated using the straight-line method over their estimated lives ranging between 3 to 40 years.

Compensated Absences

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured (e.g., due to employee resignations and retirements).

**Vacation** - Twelve month employees receive 12 days per year. Unused vacation cannot be carried over to succeeding years. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: 10 days for 10-month instructional staff employees, and 6 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit not to exceed 42 days.

**MARION T. ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Loan Origination Fees

At June 30, 2005, the loan origination fees of \$14,000 are being amortized over the ten-year life of the mortgage note using the straight-line method. The accumulated amortization at June 30, 2005 is \$350. The loan origination fees of \$31,250 were written-off during fiscal year 2005 since the note was refinanced. These fees were being amortized over the life of the term note using the straight-line method, of which \$15,190 was the accumulated amortization prior to the write-off of \$16,060.

Capital Lease Obligation

In government-wide financial statements, capital lease obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize the principal portion of the payments as expenditures. The face amount of the capital lease obligation is reported as other financing sources in the year the capital asset is leased.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

**NOTE 2 - CASH AND EQUIVALENTS**

At June 30, 2005 and 2004, the School has cash and equivalents of \$493,907 and \$238,828, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

The petty cash fund and capital projects fund are in the custody of School officials. At June 30, 2005 and 2004, these deposits were held by several financial institutions. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits totaling \$826,717 (book balance of \$826,661) and \$178,588 (book balance of \$165,022) held by the financial institutions were in excess of FDIC insurance limits in the amount of \$597,247 and \$27,331, respectively, and therefore, there is custodial risk for these deposits. Custodial risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.



**MARION T. ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

Amounts due from other governmental units represent receivables for revenues earned by the School or collections made by another governmental unit on its behalf. At June 30, intergovernmental receivables are as follows:

Description	2005	2004
Passed through the State of Delaware:		
Local school districts	\$ 112,917	\$ 118,158
Federal government	<u>19,805</u>	<u>15,115</u>
Total intergovernmental receivables	132,722	133,273
Allowance for doubtful accounts-Local	<u>(112,917)</u>	<u>(112,917)</u>
Total intergovernmental receivables, net	<u>\$ 19,805</u>	<u>\$ 20,356</u>

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30 follows:

Year Ended June 30, 2005				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	\$ 100,000	\$ ...	\$ ...	\$ 100,000
Total capital assets, not being depreciated	<u>100,000</u>	<u>...</u>	<u>...</u>	<u>100,000</u>
Capital assets, being depreciated:				
Building and improvements	4,266,421	...	...	4,266,421
Less accumulated depreciation:				
Building and improvements	<u>302,206</u>	<u>106,661</u>	<u>...</u>	<u>408,867</u>
Total capital assets, being depreciated	<u>3,964,215</u>	<u>(106,661)</u>	<u>...</u>	<u>3,857,554</u>
Governmental activities				
Capital assets, net	<u>\$4,064,215</u>	<u>\$ (106,661)</u>	<u>\$ ...</u>	<u>\$3,957,554</u>

Year Ended June 30, 2004				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	\$ 100,000	\$ ...	\$ ...	\$ 100,000
Total capital assets, not being depreciated	<u>100,000</u>	<u>...</u>	<u>...</u>	<u>100,000</u>
Capital assets, being depreciated:				
Building and improvements	4,266,421	...	...	4,266,421
Less accumulated depreciation:				
Building and improvements	<u>195,545</u>	<u>106,661</u>	<u>...</u>	<u>302,206</u>
Total capital assets, being depreciated	<u>4,070,876</u>	<u>(106,661)</u>	<u>...</u>	<u>3,964,215</u>
Governmental activities				
Capital assets, net	<u>\$4,170,876</u>	<u>\$ (106,661)</u>	<u>\$ ...</u>	<u>\$4,064,215</u>

**MARION T. ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT OBLIGATIONS**

The summary of changes in the long-term debt obligations follows:

Description	Year Ended June 30, 2005				
	Long-Term Obligations			Ending Balance	Due Within One Year
	Beginning Balance	Additions	Deletions		
<b>Governmental activity:</b>					
General obligations:					
Bridge Note	\$ 634,614	\$ ...	\$ 634,614	\$ ...	\$ ...
Promissory Note	451,589	...	...	...	451,589
Promissory Note	180,248	...	...	...	180,248
Term Note	1,041,140	...	1,041,140	...	...
Mortgage Note	...	2,800,000	48,040	2,676,064	75,896
Subtotal	2,307,591	2,800,000	1,723,794	2,676,064	707,733
Capital lease obligation	5,131	...	5,131	...	...
Other long-term debt:					
Compensated absences	13,959	2,001	...	15,960	...
Totals	\$2,326,681	\$2,802,001	\$1,728,925	\$2,692,024	\$ 707,733

Compensated absences for governmental activities are generally liquidated by the general fund.

At June 30, principal maturities of long-term debt obligations consist of the following:

Description	2005	2004
Bridge note to a financial institution in the original amount of \$1 million, with 9.00% rate of interest. Interest is payable monthly, and the balance outstanding was due and payable on the extended date of October 1, 2004. The note was secured with all the assets of the borrower now owned and hereafter acquired or created. The note was refinanced September 29, 2004.	\$ ...	\$ 634,614
Promissory note to the former management company in the original amount of \$402,647 with an interest rate of 6.00%. Effective July 1, 2002, the note calls for interest to be accrued on the loan for 24 months at which time the balance will be \$451,589. Effective July 1, 2004, the note calls for interest only payments of \$2,258 for 48 months. The note is unsecured and payable in full on July 1, 2008. The note was refinanced September 29, 2004 and the funds to pay the note are held by an escrow agent.	451,589	451,589
Subtotals (carried forward)	451,589	1,086,203

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 5 - LONG-TERM DEBT OBLIGATIONS** (continued)

Description	2005	2004
Subtotals (brought forward)	\$ 451,589	\$1,086,203
Promissory note to the former management company in the original amount of \$169,776 with an interest rate of 6.00%. Effective July 1, 2003, the note calls for interest to be accrued for 12 months at which time the balance will be \$180,248. Effective July 1, 2004, the note calls for interest only payments of \$901 for 48 months. The note is unsecured and payable in full on July 1, 2008. The note was refinanced September 29, 2004 and the funds to pay the note are held by an escrow agent.	180,248	180,248
Term note to a financial institution in the original amount of \$1.5 million with an interest rate of (i) 9.00% from the closing date through and including the second anniversary of the closing date, (ii) the greater of 9.00% or prime rate plus 2.00% (as of the first business day after the second anniversary of closing date) after the second anniversary of closing date through and including the fourth anniversary of closing date, (iii) the greater of 9.00% or prime rate plus 2.00% (as of the first business day following the fourth anniversary of closing date) after the fourth anniversary of closing date through and including the sixth anniversary of closing date and (iv) the greater of 9.00% or prime rate plus 2.00% (as of the first business day after the sixth anniversary of closing date) at all times after the sixth anniversary of closing date. At June 30, 2004, the effective interest rate was 9.00%. The note was secured with all the assets of the borrower now owned and hereafter acquired or created. The note was refinanced September 29, 2004.	...	1,041,140
Subtotals (carried forward)	631,837	2,307,591

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 5 - LONG-TERM DEBT OBLIGATIONS** (continued)

Description	2005	2004
Subtotals (brought forward)	\$ 631,837	\$2,307,591
Mortgage note to a multibank community development corporation in the amount of \$2.8 million with an interest rate of 6.23%, and a maturity date of October 1, 2014. The note was issued for the purpose of refinancing existing debt obligations. The note carries a term of 10 years and is payable in equal monthly installments of \$20,433 based on a 20 year amortization period. The note is secured with a first mortgage lien on property located at 1121 Thatcher Street, Wilmington, Delaware, and a first security interest in all fixtures, furnishings, equipment, accounts receivable, inventory, contract rights, insurance proceeds, condemnation payments, and tangible and intangible personal property of the School.	2,751,960	...
Total debt obligations	3,383,797	2,307,591
Less: Current portion	707,733	60,364
Long-term portion	<u>\$2,676,064</u>	<u>\$2,247,227</u>

Maturities of long-term debt obligations, including interest, are:

Fiscal Years Ending June	Principal	Interest	Total
2007	\$ 80,762	\$ 164,438	\$ 245,200
2008	85,939	159,261	245,200
2009	91,449	153,751	245,200
2010	97,312	147,888	245,200
2011	103,550	141,650	245,200
2012-2015	<u>2,217,052</u>	<u>421,781</u>	<u>2,638,833</u>
Long-term portion of debt	<u>\$2,676,064</u>	<u>\$1,188,769</u>	<u>\$3,864,833</u>

The amount of interest costs to be capitalized are based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance a capital asset. Total interest incurred was \$166,768 for 2005 and \$188,943 for 2004, all of which was charged to operations.

**NOTE 6 - PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. The State contributed 7.44% for 2005 and 2004 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above social security maximum. Total pension cost of \$241,404 for 2005 and \$180,701 for 2004 (State share) and \$68,516 for 2005 and \$29,675 for 2004 (local share) is included in the financial statements. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service-age 55 (reduced by 0.2%, each month under age 60)
  - b. 25 years service-any age (reduced by 0.2%, each month short of 30 years)
- Service retirement:
  - a. 15 years service-age 60
  - b. 30 years service-any age
  - c. 5 years service-age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) *Comprehensive Annual Report*. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

**NOTE 7 - LEASING ARRANGEMENTS**

The School is involved in the following leasing arrangements:

Operating Lease Arrangement

The School leases certain premises from the PAL Center, Inc. located at 3707 N. Market Street, Wilmington, Delaware. The lease was executed on June 28, 2002. The term of the lease calls for rental to commence September 1, 2002 and ending August 31, 2003, with options to extend the lease annually for two additional years. The School exercised the option to extend the lease one year, until June 30, 2004. Total rental expense was \$0 for 2005 and \$182,141 for 2004.

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 7 - LEASING ARRANGEMENTS** (continued)

Operating Lease Arrangement (continued)

The School leases a 20,000 square foot building containing 8 classrooms, improvements, equipment and fixtures located at 1201 Northeast Boulevard, Wilmington, Delaware. The term of the lease calls for rental to commence September 1, 2003 and ending August 31, 2013 with an option for one additional term of 5 years. Because of extensive renovations, the School did not occupy the building until September 1, 2004. Base rent shall be increased July 1 by the lessor of 5% of the base rent for the previous calendar year or the percentage increase in the Consumer Price Index. At any time during the term of this lease the School has the right and option to purchase the premises for \$2,941,000 with an annual increase of 5% to the base amount. The lease calls for annual rental payments of \$216,000. Total rental expense for fiscal year 2005 was \$233,300.

Capital Lease Arrangement

The summary of changes in the capital lease obligation follows:

Description	Year Ended June 30, 2005			Ending Balances
	Beginning Balance	Addition	Deletion	
Hewlett Packard-computers	\$ 5,131	\$ ...	\$ 5,131	\$ ...

The School was the lessee of certain computer equipment under a capital leasing arrangement through fiscal year 2005. The assets and liability under the lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the capital assets. Generally, these assets are depreciated over their estimated useful lives using the straight-line method of depreciation. The cost of property held under the capital leasing arrangement was \$32,892. The capital assets did not meet the School's capitalization policy and as such were recorded as expenditures when the lease payments were made.

Interest rate on the capitalized leasing arrangement was 14.735% and was imputed based on the lower of the School's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

**NOTE 8 - DEFICIT FUND EQUITY**

At June 30, 2004, the governmental funds had a deficit of \$206,216. The deficit was eliminated during fiscal year 2005 through the adoption of cost controlling measures, increased enrollment, and the refinancing of its debt obligations to reduce annual debt service payments thereby improving future operating budgets.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants Activity

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial to the basic financial statements.

Management Agreement

The Management Agreement (the "Agreement"), made and entered into as of the 1st day of October, 1999, is intended to amend and supersede the Agreement made and entered into as of the 28th day of July, 1999, by and between Mosaica Education, Inc., a Delaware corporation ("MEI"), and Marion T. Academy Charter School, Inc. (the "Academy"), a public school academy established under a charter granted by the Delaware Department of Education and State Board of Education pursuant to Del. Code, Title 14, Chapter 5 (the "Code"). The term of the Agreement commences on the date of the Agreement and ends on the last day of the 2002-2003 school year. Upon expiration of the term, the Agreement will automatically renew for an additional term of two years unless one year prior to the expiration of any renewal term written notice be given to let the Agreement expire at the end of the term. As part of the Agreement MEI will provide the School with The Paragon Curriculum, instructional services, personnel, tools, equipment and supplies, and management and administrative services necessary to implement and operate the School. The Academy will pay MEI an annual fee of (i) 12.5% of the state and local school funds (the "State Aid") that the Academy receives, directly or indirectly, pursuant to the Code, for the particular students enrolled in the Academy (the "State Allocation"), plus (ii) subject to federal law and regulations, 12.5% of the funds (the "Federal Funds") that the Academy receives, directly or indirectly, from the federal government (the "Federal Allocation") (the Federal Allocation together with the State Allocation, the "Management Fee"). Such consideration will not preclude the payment of additional consideration if additional consideration is permitted or specified elsewhere in this Agreement or other agreements between the parties. The above are only excerpts of the executed agreement; for further detail, refer to the agreement itself.

The School Board of Directors terminated the Management Agreement on April 6, 2004. As of the date of the audit report, the School has not received a response from the management company.

**MARION T. ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10 - RELATED PARTY TRANSACTIONS**

Nehemiah Gateway Community Development Corporation (NGCDC), a non-profit corporation, provides food services to the School. The NGCDC Board president is also the Board president of the School. Also, the Chief Administrative Officer of the School is the NGCDC Board treasurer. At June 30, 2005 and 2004, the School paid food service costs of \$44,255 and \$61,215, respectively.

The vice-president of the School Board is also the Board secretary of Innovative Schools Development Corporation (ISDC), a non-profit corporation. ISDC provides consulting services to the School which commenced during fiscal year 2004. At June 30, 2005 and 2004, the School paid ISDC \$149,333 and \$39,508, respectively.

The vice-president of the School Board is related by marriage to a shareholder of a law firm hired by the School. At June 30, 2005 and 2004, total legal fees billed to the School by the law firm were \$35,048 and \$49,481, respectively.

**NOTE 11 - SUBSEQUENT EVENT**

On October 5, 2005, the School and Mosaica Education, Inc. (the former management company) reached an agreement to resolve their outstanding dispute (the termination of the management agreement by the School).



**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 12 - REQUIRED PRIMARY GOVERNMENT DISCLOSURES**

The following are condensed government-wide financial statements as of and for the years ended June 30:

Description	2005	2004
	(In thousands)	
Statement of Net Assets		
Current assets:		
Cash and equivalents	\$ 1,320	\$ 404
Accounts receivable, net	22	22
Due from primary government	20	20
Total current assets	1,362	446
Noncurrent assets:		
Capital assets, net	3,957	4,089
Other noncurrent assets	14	16
Total assets	5,333	4,551
Liabilities:		
Accounts payable	46	350
Accrued liabilities	319	323
Current portion of long-term debt	708	66
Total current liabilities	1,073	739
Noncurrent liabilities:		
Compensated absences	16	14
Notes payable	2,676	2,247
Total liabilities	3,765	3,000
Net assets (liabilities):		
Invested in capital assets, net	1,219	2,424
Restricted	699	4
Unrestricted	(350)	(877)
Total net assets	\$ 1,568	\$ 1,551
Statement of Activities		
Total expenses	\$ (5,112)	\$ (4,434)
Program revenues:		
Charges for services	14	37
Operating grants and contributions	601	417
Net (expense) revenue	(4,497)	(3,980)
General revenues:		
Payments from primary governments	4,486	3,785
Investment earnings	19	4
Miscellaneous	9	12
Total general revenues	4,514	3,801
Change in net assets (liabilities)	17	(179)
Net assets-beginning of year	1,551	1,730
Net assets-end of year	\$ 1,568	\$ 1,551

## **Required Supplemental Information (RSI) Section**

**MARION T. ACADEMY CHARTER SCHOOL****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL-GENERAL FUND**  
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
<b>REVENUES</b>				
Charges to school districts	\$ 1,413,483	\$ 1,627,062	\$ 1,630,250	\$ 3,188
State aid	2,676,905	2,850,153	2,855,268	5,115
Federal aid	510,202	460,202	447,161	(13,041)
Earnings on cash and equivalents	...	...	13,451	13,451
School Food services	140,000	90,000	89,443	(557)
Contributions	50,000	25,000	78,479	53,479
Miscellaneous	40,702	40,702	8,795	(31,907)
<b>Total revenues</b>	<b>4,831,292</b>	<b>5,093,119</b>	<b>5,122,847</b>	<b>29,728</b>
<b>EXPENDITURES</b>				
Current:				
Salaries	2,096,311	2,182,758	2,153,959	28,799
Employment costs	706,247	735,371	774,742	(39,371)
Travel	10,000	10,000	9,740	260
Contracted services	332,500	402,688	308,546	94,142
Communications	22,700	22,700	27,263	(4,563)
Public utility services	86,000	86,000	74,964	11,036
Insurance	35,000	35,000	23,996	11,004
Transportation-buses	366,000	537,442	363,630	173,812
Land/Building/Facilities	321,172	334,972	287,622	47,350
Repairs and maintenance	93,000	103,000	104,732	(1,732)
Other contractual services	25,400	60,400	165,003	(104,603)
Supplies and materials	22,000	22,000	48,178	(26,178)
Operating supplies	160,155	160,155	130,852	29,303
Computer/Word Processing/Software	2,000	2,000	11,180	(9,180)
Food service costs	140,000	167,494	200,186	(32,692)
Contingency	...	...	31,793	(31,793)
Capital outlay	33,220	33,220	...	33,220
Debt service:				
Principal	94,706	94,706	93,659	1,047
Interest and other charges	168,621	188,927	153,974	34,953
<b>Total expenditures</b>	<b>4,715,032</b>	<b>5,178,833</b>	<b>4,964,019</b>	<b>214,814</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>116,260</b>	<b>(85,714)</b>	<b>158,828</b>	<b>244,542</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in (out)	...	...	392,027	392,027
Proceeds from long-term financing	...	...	...	...
<b>Total other financing sources (uses)</b>	<b>...</b>	<b>...</b>	<b>392,027</b>	<b>392,027</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>116,260</b>	<b>(85,714)</b>	<b>550,855</b>	<b>636,569</b>
<b>FUND BALANCES (DEFICIT)</b>				
Beginning of year	(395,817)	(395,817)	(395,817)	...
End of year	<u>\$ (279,557)</u>	<u>\$ (481,531)</u>	<u>\$ 155,038</u>	<u>\$ 636,569</u>

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for fiscal year 2005.

See Accompanying Report of Independent Auditor

## **Additional Information**

MARION T. ACADEMY CHARTER SCHOOL  
BALANCE SHEETS-GENERAL FUND  
June 30, 2005 and 2004

	2005				2004			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>ASSETS</b>								
Cash and equivalents	\$ 5,000	\$ 489,929	\$ ...	\$ 494,929	\$ 74	\$ 248,100	\$ ...	\$ 248,174
Accounts receivable, net	...	5,972	...	5,972	...	6,851	...	6,851
Due from other governments	...	19,805	...	19,805	...	20,356	...	20,356
Interfund receivable (payable)	...	...	...	...	2,700	...	...	2,700
<b>TOTAL ASSETS</b>	<u>\$ 5,000</u>	<u>\$ 515,706</u>	<u>\$ ...</u>	<u>\$ 520,706</u>	<u>\$ 2,774</u>	<u>\$ 275,307</u>	<u>\$ ...</u>	<u>\$ 278,081</u>
<b>LIABILITIES</b>								
Accounts payable	\$ ...	\$ 46,006	\$ ...	\$ 46,006	\$ ...	\$ 350,504	\$ ...	\$ 350,504
Accrued salaries and related costs	...	319,662	...	319,662	...	323,394	...	323,394
<b>Total liabilities</b>	<u>...</u>	<u>365,668</u>	<u>...</u>	<u>365,668</u>	<u>...</u>	<u>673,898</u>	<u>...</u>	<u>673,898</u>
<b>FUND BALANCES (DEFICIT)</b>								
Reserved for encumbrances	...	...	...	...	...	...	...	...
Unreserved	5,000	150,038	...	155,038	2,774	(398,591)	...	(395,817)
<b>Total fund balances (deficit)</b>	<u>5,000</u>	<u>150,038</u>	<u>...</u>	<u>155,038</u>	<u>2,774</u>	<u>(398,591)</u>	<u>...</u>	<u>(395,817)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 5,000</u>	<u>\$ 515,706</u>	<u>\$ ...</u>	<u>\$ 520,706</u>	<u>\$ 2,774</u>	<u>\$ 275,307</u>	<u>\$ ...</u>	<u>\$ 278,081</u>

See Accompanying Report of Independent Auditor

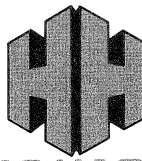
**MARION T. ACADEMY CHARTER SCHOOL**

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GENERAL FUND  
Years Ended June 30, 2005 and 2004

	2005				2004			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>REVENUES</b>								
Charges to school districts	\$ ...	\$ 1,630,250	\$ ...	\$ 1,630,250	\$ ...	\$ 1,231,431	\$ ...	\$ 1,231,431
State aid	2,855,268	...	...	2,855,268	2,554,218	...	...	2,554,218
Federal aid	...	...	447,161	447,161	...	...	306,248	306,248
Earnings on cash and equivalents	...	13,451	...	13,451	...	3,241	...	3,241
Food service revenue	...	14,168	75,275	89,443	...	36,844	91,372	128,216
Contributions	...	78,479	...	78,479	...	18,985	...	18,985
Miscellaneous	...	8,795	...	8,795	...	11,727	...	11,727
<b>Total revenues</b>	<b>2,855,268</b>	<b>1,745,143</b>	<b>522,436</b>	<b>5,122,847</b>	<b>2,554,218</b>	<b>1,302,228</b>	<b>397,620</b>	<b>4,254,066</b>
<b>EXPENDITURES</b>								
Current:								
Salaries	1,673,215	269,466	211,278	2,153,959	1,189,694	637,424	146,180	1,973,298
Employment costs	654,759	63,972	56,011	774,742	499,788	59,684	36,410	595,882
Travel	393	1,171	8,176	9,740	817	2,092	661	3,570
Contracted services	27,989	240,385	40,172	308,546	184,815	130,475	50,464	365,754
Communications	12,521	14,480	262	27,263	26,584	(10,141)	1,121	17,564
Public utility services	6,328	68,636	...	74,964	49,617	16,949	...	66,566
Insurance	17,857	6,139	...	23,996	14,482	2,371	...	16,853
Transportation-buses	(8,347)	371,977	...	363,630	46,881	341,870	...	388,751
Land/Building/Facilities	17,956	269,666	...	287,622	163,006	74,610	...	237,616
Repairs and maintenance	16,868	87,864	...	104,732	77,711	15,219	...	92,930
Other contractual services	1,867	46,134	117,002	165,003	19,592	35,757	24,097	79,446
Supplies and materials	16,434	31,744	...	48,178	12,972	10,326	...	23,298
Operating supplies	26,200	94,500	10,152	130,852	84,774	(17,412)	47,315	114,677
Computer/Word Processing/Software	685	10,495	...	11,180	1,504	...	...	1,504
Food service costs	3,283	121,628	75,275	200,186	26,257	54,999	91,372	172,628
Capital outlay	5,106	22,579	4,108	31,793	2,398	(2,123)	...	275
Debt service:								
Principal	40,488	53,171	...	93,659	105,024	121,588	...	226,612
Interest and other charges	37,830	116,144	...	153,974	76,696	89,815	...	166,511
<b>Total expenditures</b>	<b>2,551,432</b>	<b>1,890,151</b>	<b>522,436</b>	<b>4,964,019</b>	<b>2,582,612</b>	<b>1,563,503</b>	<b>397,620</b>	<b>4,543,735</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>303,836</b>	<b>(145,008)</b>	<b>...</b>	<b>158,828</b>	<b>(28,394)</b>	<b>(261,275)</b>	<b>...</b>	<b>(289,669)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Interfund transfers in (out)	(301,610)	693,637	...	392,027	14,852	(14,852)	...	...
Proceeds from long-term financing	...	...	...	...	...	206,483	...	206,483
<b>Total other financing sources (uses)</b>	<b>(301,610)</b>	<b>693,637</b>	<b>...</b>	<b>392,027</b>	<b>14,852</b>	<b>191,631</b>	<b>...</b>	<b>206,483</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,226</b>	<b>548,629</b>	<b>...</b>	<b>550,855</b>	<b>(13,542)</b>	<b>(69,644)</b>	<b>...</b>	<b>(83,186)</b>
<b>FUND BALANCES (DEFICIT)</b>								
Beginning of year	2,774	(398,591)	...	(395,817)	16,316	(328,947)	...	(312,631)
End of year	\$ 5,000	\$ 150,038	\$ ...	\$ 155,038	\$ 2,774	\$ (398,591)	\$ ...	\$ (395,817)

See Accompanying Report of Independent Auditor

**SINGLE AUDIT SUPPLEMENT**  
**REQUIRED BY OMB CIRCULAR A-133**



**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

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Private Companies Practice Section

**Report of Independent Auditor  
on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the School Board Members and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of and for the year ended June 30, 2005, which collectively comprise Marion T. Academy Charter School, Wilmington, Delaware and have issued our report thereon dated September 6, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion T. Academy Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Marion T. Academy Charter School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01. However, the reportable condition described as item 05-01 we consider to be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 05-01 to be a material weakness.

We also noted certain additional matters involving the internal control over financial reporting, which we have reported to management of Marion T. Academy Charter School in a separate letter dated September 6, 2005.



## Compliance and Other Matters

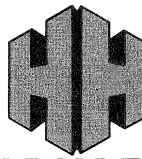
As part of obtaining reasonable assurance about whether Marion T. Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 05-02.

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This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

  
Certified Public Accountants

September 6, 2005  
Wilmington, Delaware



**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

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American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditor  
on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133**

To the School Board Members and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

Compliance

We have audited the compliance of Marion T. Academy Charter School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Marion T. Academy Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marion T. Academy Charter School's management. Our responsibility is to express an opinion on Marion T. Academy Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion T. Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion T. Academy Charter School's compliance with those requirements.

In our opinion, Marion T. Academy Charter School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 05-02.

## Internal Control Over Compliance

The management of Marion T. Academy Charter School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marion T. Academy Charter School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Marion T. Academy Charter School's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above as item 05-01 we consider to be a material weakness.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of and for the year ended June 30, 2005, and have issued our report thereon dated September 6, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Marion T. Academy Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of item 05-02, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

September 6, 2005  
Wilmington, Delaware

**MARION T. ACADEMY CHARTER SCHOOL**  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through State of Delaware, Department of Education (DOE):			
Child and Adult Care Food Program	10.558	N/A	\$ 75,275
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>\$ 75,275</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the Delaware Department of Education (DOE):			
Title I Grants to Local Educational Agencies (LEAs)	84.010	N/A	\$ 245,169
Special Education-Grants to States (IDEA, Part B)	84.027	N/A	57,487
Safe and Drug-Free Schools and Communities-State Grants	84.186	N/A	6,582
School Improvement	84.256	N/A	11,250
Enhancing Education Through Technology	84.318	N/A	24,178
Improving Teacher Quality-State Grants	84.367	N/A	102,495
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>\$ 447,161</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 522,436</b>

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards presents the activity of all the federal awards received by Marion T. Academy Charter School (the "School") and is presented on the accrual basis of accounting. The School's reporting entity is defined in Note 1 to the basic financial statements. All federal awards received from federal awarding agencies and pass-through entities are included on the schedule.

**MARION T. ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2005**

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**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditors' report expresses unqualified opinions on the financial statements of Marion T. Academy Charter School.
2. One material reportable condition was disclosed during the audit of the basic financial statements.
3. One instance of noncompliance was disclosed during the audit of the financial statements.
4. One reportable condition was disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs of Marion T. Academy Charter School are reported in Section C of this Schedule.
7. The programs tested as major programs included:
  - 84.010-Title I Grants to Local Educational Agencies
  - 84.367-Improving Teacher Quality-State Grants
8. Threshold for distinguishing between Type A and B programs was \$300,000.
9. Marion T. Academy Charter School did not qualify as a low-risk auditee.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

**05-01 MONITORING FUNCTION**

**Condition:** Our procedures revealed that the School's monitoring policies and procedures were not being adhered to or followed. This was evidenced by the fact that payroll expenditures were being charged to federal grants and were not reconciled to the supporting time and effort reports.

**Recommendation:** We recommend management revisit its monitoring policies and procedures to determine the cause of the breakdown, and to take the necessary steps to correct the condition.

**AUDITEE'S PLAN FOR CORRECTIVE ACTION**

*"Marion T. Academy re-visited its monitoring policies and procedures to determine the cause of the breakdown, and took the necessary steps to correct the condition. The corrective steps include:*

- 1. Requirement that all time and effort reports be created for each staff member being paid by federal grants for each pay period.*
  - 2. Requirement that all time and effort reports be signed by each employee on or before each pay period.*
  - 3. Requirement that all time and effort reports be collected and placed in a binder in chronological order.*
  - 4. Requirement that PHRST (payroll) personnel receive copy of time and effort report with each payroll approval."*
-

**MARION T. ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2005**

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**C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**DEPARTMENT OF EDUCATION**

05-02 **Title I Grant to Local Educational Agencies (LEAs)-CFDA No. 84.010**  
**Period:** July 1, 2004 to June 30, 2005

**Condition:** Payroll expenditures and related employment costs were charged to the federal grant without being reconciled to the employee's time and effort reports.

**Criteria:** In accordance with OMB Circular A-87, Attachment B, paragraph C.8.h: "Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by responsible officials of the governmental unit".

**Effect:** \$59,540 of payroll expenditures and \$13,325 of related employment costs are considered questioned costs because documentation of grant charges were not accurately based on the time and effort reports. However, once the auditor noted the error, the School immediately reimbursed the federal grant \$72,865.32 on August 8, 2005.

**Cause:** The work performed by an outside consulting group was not monitored by School officials.

**Recommendation:** The School has written policies and procedures to provide guidance to employees and/or outside consultants administering grant activity; therefore the employees are aware of the reporting requirements. We recommend management review its policies and procedures regarding monitoring to determine the cause of the breakdown and to take necessary steps to correct the condition.

**AUDITEE'S PLAN FOR CORRECTIVE ACTION**

*"Marion T. Academy management reviewed the policies and procedures related to grant activity and reporting and determined the cause of the breakdown and took the necessary steps to correct the condition. The corrective actions include:*

- 1. Ensuring that any outside consulting group follow the policies and procedures for grant activity and monitoring closely all payroll documentation prior to approving expenditure.*
- 2. Requirement that time and effort reports be created for each staff member being paid by federal grants for each pay period.*
- 3. Requirement that all time and effort reports be signed by each employee on or before each pay period.*
- 4. Requirement that all time and effort reports be collected and placed in a binder in chronological order.*
- 5. Requirement that PHRST (payroll) personnel receive copy of time and effort report with each payroll approval."*

**MARION T. ACADEMY CHARTER SCHOOL**  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

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**FINDINGS-FINANCIAL REPORTING**

**02-01 FINDING - PETTY CASH FUNDS**

Our review procedures of the petty cash fund revealed that certain receipts and disbursements are not identifiable. 53 deposits do not have supporting documentation for a total of \$61,840, and 26 checks are either missing or voided with no documentation.

**WE RECOMMENDED THAT** the School institute procedures to properly record and identify all petty cash fund transactions.

**AUDITEE'S PLAN FOR CORRECTIVE ACTION**

*"The School has undertaken a variety of measures since January, 2003 to improve management of petty cash procedures at the School, including: 1) replacement of personnel; 2) assignment and training of new personnel; and 3) more frequent and extensive oversight by management company personnel. New written procedures will be adopted by the Board prior to June 30, 2003, which upon implementation in July 2003, will specifically require the maintenance of written documentation of all deposits - including the source and purpose of the deposit - that checks be returned by the bank to the School and retained onsite, and that written documentation and, where possible, the original of all voided checks be retained onsite."*

**STATUS OF FINDING**

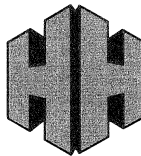
**The finding is resolved.**

Management Letter

**MARION T. ACADEMY CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)  
Wilmington, Delaware

Year Ended June 30, 2005





**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†  
Vincent S. Barbone, CPA, CFE\*†

American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

### **Management Letter**

To the School Board Members and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

In planning and performing our audit of the financial statements of Marion T. Academy Charter School for the year ended June 30, 2005, we considered the internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

During our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations regarding such matters. A separate report dated September 6, 2005, contains our report on reportable conditions in the School's internal control. This letter does not affect our report on the School's financial statements, dated September 6, 2005.

The matters noted are only those that came to our attention and, had our procedures for internal control related matters been more extensive, other matters might have been noted. Also, the functioning of the internal control was assessed at a point in time, and no assurances can be drawn that the internal control is functioning or will continue to function beyond the point in time at which it was assessed. No opinion is being expressed regarding the internal control taken as a whole.

We will review the status of these findings during our next audit engagement. We have discussed these matters with the School's personnel and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the School in implementing the recommendations.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

  
Certified Public Accountants

September 6, 2005  
Wilmington, Delaware

To the School Board Members and President  
**Marion T. Academy Charter School**  
Management Letter  
September 6, 2005  
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**LIST OF FINDINGS FOLLOWS:**

<u>Current Findings</u>	<u>Description</u>
1	Cash Management
2	Payroll Function

Status of Prior Years' Findings

**June 30, 2004:**

1	Grant Expenditure Allocations
2	Cash Disbursement Function
3	Personnel Manual
4	Petty Cash Fund

**June 30, 2003:**

1	Cash Management Function
2	General Journal Entries
3	Federal Form 990 Amendment

**June 30, 2002:**

1	Human Resource Function
2	Accounts Receivable
3	Cash Disbursements Function
4	Records Management
5	Late Charge Assessments

## **CURRENT FINDINGS**

### **Finding Number 1 - Cash Management**

Our audit procedures revealed that a check for \$22,000, resulting from the School's debt refinancing, was held and not deposited in the School's bank account for 75 days. The State of Delaware's *Budget and Accounting Policy Manual*, Section VIII-B states that: "All monies which belong to the State are to be deposited on the day of receipt... Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first. When monies are received after the close of normal banking hours, they shall be deposited on the next business day."

#### Recommendation

We recommend that all cash receipts be deposited in accordance with The State of Delaware's *Budget and Accounting Policy Manual*.

### **Finding Number 2 - Payroll Function**

Our audit procedures revealed that no written record of the Board of Directors' actions taken regarding the Head of School's salary is included in the personnel file.

#### Recommendation

We recommend that the Board send a memo to the payroll clerk detailing the salary amount, the effective date of the salary for the Head of School, and the approval date by the Board.

## **STATUS OF PRIOR YEARS' FINDINGS**

**June 30, 2004:**

### **Finding Number 1 - Grant Expenditure Allocations**

Our audit procedures revealed that expenditures are allocated to grants without supporting documentation to ascertain the propriety of the allocations being made.

#### Recommendation

We recommended that all grant expenditures be reviewed along with their supporting documentation, such as time and effort reports, to determine whether it is an allowable federal grant expenditure.

#### Status of Finding

The finding remains unresolved.

### **Finding Number 2 - Cash Disbursement Function**

Our audit procedures revealed that the former management company and the current management consultants prepare, complete and process payment vouchers and encumbrance adjustments. Out of a random sample of 113, 10 did not contain the required signatures. The condition was caused by unfamiliarity with the State of Delaware's Budget & Accounting System, which states in 29 Del. C. 6505 (c), 6515 (b) and 6517 that *"Requests for payments must be presented bearing the signed approval: In the case of an agency headed by a board or commission, by the president, chairman or head officer and the secretary. A state board or commission may, by majority vote, delegate the authority to sign invoices or bills to the chief full-time administrative employee of the board or commission and to one or more other employees. Each bill or statement shall be signed in person by 2 of the delegated, including the chief administrative employer. The names and signatures of those authorized to approve the payment of bills and statements are to be kept on file by the Secretary of Finance, pursuant to his responsibility to safeguard state funds."*

#### Recommendation

We recommended that School management develop and implement procedures that are in compliance with the State of Delaware's Budget and Accounting System.

#### Status of Finding

The finding is resolved.

**STATUS OF PRIOR YEARS' FINDINGS** (continued)

**June 30, 2004:** (continued)

**Finding Number 3 - Personnel Manual**

The personnel manual requires updating to remove all references to the management company, including the following:

1. The current manual dated 12/10/03, effective January 2004 states that *"No one other than President of Mosaica Education, Inc. may alter or modify any of the policies in this Employee Manual"*.
2. The pay periods are not in agreement with the State of Delaware's pay periods.
3. Direct deposit is mandatory by the State of Delaware and not just "where available".
4. Benefit information and eligibility needs to agree with the State of Delaware's benefits or state the School's differences.

Recommendation

We recommended that management, along with the Board, review the manual and update, where applicable.

Status of Finding

An updated manual was prepared; however, the manual contains references to the former management company. Also, direct deposit is still not listed as mandatory, and some employee benefit information does not agree with that of the State.

**Finding Number 4 - Petty Cash Fund**

Our review of the petty cash fund disbursements revealed that a better understanding of the disbursements made would increase accuracy in assigning object codes.

Recommendation

We recommended that the individuals assigning object codes gain a better understanding of the invoices being paid and the State of Delaware Budget and Accounting Manual Chart of Accounts.

Status of Finding

The finding is resolved.

**STATUS OF PRIOR YEARS' FINDINGS** (continued)

**June 30, 2003:**

**Finding Number 1 - Cash Management Function**

Our audit procedures revealed that an operating financial transaction of the School was processed through the local bank account established for capital projects. The transaction was a contribution of \$2,700 provided to the School for the reimbursement of utilities. The \$2,700 was deposited in the local bank account; however, the School paid the vendor for the utilities from the State's general fund. The \$2,700 should have been deposited and credited to the State's general fund. An interfund receivables/payables was reflected in the books of original entry to correct the error.

Recommendation

We recommended that the School reimburse the State's general fund \$2,700 from the local bank account. Also, we recommended that the School discontinue the use of the local bank account for operating activities.

Status of Finding

The finding is resolved.

**Finding Number 2 - General Journal Entries**

Our review of EX (Expenditure Correction) documents revealed that EX documents and source documentation do not agree.

Recommendation

We recommended that all documents be reviewed for accuracy and completeness prior to approval.

Status of Finding

The finding remains unresolved.

**Finding Number 3 - Federal Form 990 Amendment**

Our review of the School's Federal Form 990 for fiscal year 2002 revealed that the Form filed with the Internal Revenue Service was incomplete and inaccurate. We also noted that the School Advance Ruling Period expired June 30, 2003.

Recommendation

We recommended that management take the necessary steps to remedy the situation, as previously discussed at the fiscal year 2002 audit exit conference.

Status of Finding

The finding is resolved.

**STATUS OF PRIOR YEARS' FINDINGS** (continued)

**June 30, 2002:**

**Finding Number 1 - Human Resource Function**

Our review of the human resource function revealed that certain personnel files did not contain documentation of Teacher Certificates or background checks. Out of a random sample of 30 files tested, 5 files had incomplete or missing information.

The Delaware Code, Title 14, Section 507(c) states that "a charter school may, where it deems it beneficial to the success of its educational program, hire non-certified teachers so long as such teachers comprise no more than 35% of the teachers at the school". Also, the Delaware Department of Education (DOE) requires that all final candidates for public school related employment are required to have a criminal background check (DOE Administrative Code Section 745).

Recommendation

We recommended that review procedures be instituted to ensure that personnel files contain all the necessary documentation required for compliance with federal, state and local laws.

Status of Finding

The finding is resolved.

**Finding Number 2 - Accounts Receivable**

Our review of the accounts receivable revealed that two school districts owed funds to the School for fiscal years 2001 and 2002 with no evidence of collection efforts being made.

Recommendation

We recommended that action be taken to collect all funds owed to the Charter School. Future collections should be monitored on a regular basis so as to provide funds more timely to the Charter School.

Status of Finding

The finding is resolved.

**STATUS OF PRIOR YEARS' FINDINGS** (continued)

**June 30, 2002:** (continued)

**Finding Number 3 - Cash Disbursements Function**

Our procedures revealed the following conditions:

- PV (Payment Voucher) documents were processed with no dates on signature approvals and/or no source documentation was attached. Out of a sample of 37 documents tested, 13 documents had no dates on signature approvals and 22 had no source documentation attached. The documentation was later secured from the vendor.
- EX (Expenditure Correction) documents were processed with no explanation, no title of authorized signer and/or no dates on signature approvals. The State of Delaware Budget and Accounting Policy Manual, Chapter II, Internal Controls, Section C states that widely accepted good control should include the following:
  - Authorization - ensuring that all transactions are approved by management; and,
  - Classification - ensuring that all transactions recorded are assigned to the proper categories.
- Our review of the cash disbursements revealed that a better understanding of the payment vouchers would increase accuracy in assigning object codes.
- CX (Check Cancellation) documents were missing. The finance secretary was unable to locate 2 CX documents.

Recommendation

We recommended that management perform the following:

- A review of the PV documents be performed along with original information attachments for completeness, accuracy and appropriate management approval.
- A review of the PV documents be performed to ensure that the person preparing the documents provides a detailed explanation on all expenditures in order to aid in the assignment of object codes.
- A review of the EX documents be performed to ascertain that all documents are complete and contain the appropriate management approval.
- A review of the current filing system be performed with attention to procedures.

Status of Finding

The finding is resolved.



**STATUS OF PRIOR YEARS' FINDINGS** (continued)

**June 30, 2002:** (continued)

**Finding Number 4 - Records Management**

We were unable to locate certain financial records. The records were either misfiled, were not available at the management office, or original documentation was not available to facilitate the audit process. The causes of the problem appear to be the following:

- Lack of a clearly specified system for filing records;
- Failure of those who removed records from the files to indicate who took the record(s);
- Failure to return the record(s) to the files or misfiling it when it was returned; and,
- Lack of specific policies for removing prior year records from the files to a designated storage space.

The result is that nonproductive time is spent in searching for needed documents.

Recommendation

We recommended that the following steps be considered:

- Decide on a systematic manner of filing records, consecutively by number, vendor invoices alphabetically by vendor name, journal entries by month, and so on.
- Management become familiar with the following:
  - The records management handbook "General Records Retention Schedule" from the Bureau of Archives and Records Management.
  - Department of Education, Administrative Code, Section 716, "Maintenance of Local School District Personnel Records".
  - Office of the Budget, Budget and Accounting Policy, Section XII Records Retention and Filing.

Status of Finding

The finding is resolved.

To the School Board Members and President  
**Marion T. Academy Charter School**  
Management Letter  
September 6, 2005  
Page 10 of 10

**STATUS OF PRIOR YEARS' FINDINGS** (continued)

**June 30, 2002:** (continued)

**Finding Number 5 - Late Charge Assessments**

The review of paid vendor invoices revealed that late charges were paid to vendors. Late charges amounted to \$16,654.65 for the seven vendors tested. We noted that sufficient funds were available to pay the vendors. The interest rate assessed by the vendors was not explicit on the invoices.

Recommendation

We recommended that the School develop procedures to ensure the timely payment of vendor invoices. Also, School personnel should acquaint themselves with the State of Delaware Code Section 29 Subsection 6516.

Status of Finding

The finding is resolved.